



SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-95806; File No. SR-FICC-2022-006]

Self-Regulatory Organizations; Fixed Income Clearing Corporation; Notice of Filing of Proposed Rule Change to Increase the Minimum Required Fund Deposit for GSD Netting Members and Sponsoring Members, and Make Other Changes

September 16, 2022.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on September 9, 2022, Fixed Income Clearing Corporation (“FICC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the clearing agency. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Clearing Agency’s Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change consists of modifications to FICC’s Government Securities Division (“GSD”) Rulebook (“GSD Rules”) and Mortgage-Backed Securities Division (“MBSD”) Clearing Rules (“MBSD Rules,” and collectively with the GSD Rules, the “Rules”)³ in order to increase the minimum Required Fund Deposit for GSD

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Terms not defined herein are defined in the GSD Rules, available at http://www.dtcc.com/~media/Files/Downloads/legal/rules/ficc_gov_rules.pdf, and the MBSD Rules, available at www.dtcc.com/~media/Files/Downloads/legal/rules/ficc_mbsd_rules.pdf.

Netting Members and Sponsoring Members (collectively, “members”), as well as make certain clarifying and technical changes, as described in greater detail below.

II. Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the clearing agency included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The clearing agency has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

(A) Clearing Agency’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

FICC is proposing to increase the minimum Required Fund Deposit for members, as described in greater detail below.

Background

As part of its market risk management strategy, FICC manages its credit exposure to members by determining the appropriate Required Fund Deposit to the Clearing Fund and monitoring its sufficiency, as provided for in the Rules.⁴ The Required Fund Deposit serves as each member’s margin. The objective of a member’s Required Fund Deposit is to mitigate potential losses to FICC associated with liquidation of member’s portfolio in the event FICC ceases to act for that member (hereinafter referred to as a “default”).⁵

⁴ See GSD Rule 4 (Clearing Fund and Loss Allocation), *supra* note 3. FICC’s market risk management strategy is designed to comply with Rule 17Ad-22(e)(4) under the Act, where these risks are referred to as “credit risks.” 17 CFR 240.17-Ad-22(e)(4).

⁵ The Rules identify when FICC may cease to act for a member and the types of actions FICC may take. For example, GSD is permitted to cease to act for (i) a Member pursuant to GSD Rule 22A (Procedures for When the Corporation Ceases to Act), (ii) a Sponsoring Member pursuant to Section 14 of GSD Rule 3A

The aggregate of all member's Required Fund Deposits, together with certain other deposits required under the Rules, constitutes the Clearing Fund, which FICC would access, among other instances, should a defaulting member's own Clearing Fund deposit be insufficient to satisfy losses to FICC caused by the liquidation of that member's portfolio.

Pursuant to the Rules, each member's Required Fund Deposit amount consists of a number of applicable components, each of which is designed to address specific risks faced by FICC, as identified within GSD Rule 4.⁶ Currently, FICC requires a minimum Required Fund Deposit of \$100,000 be made and maintained in cash.⁷ The same requirement applies to the GSD Sponsoring Members;⁸ however, for GSD Repo Brokers, the minimum Required Fund Deposit amount is \$5 million.⁹

FICC's margining methodologies are designed to mitigate market, liquidity and other risks. FICC regularly assesses its margining methodologies to evaluate whether margin levels are commensurate with the particular risk attributes of each relevant product, portfolio, and market. In connection with such reviews, FICC has determined that there are circumstances where the current minimum Required Fund Deposit amount

(Sponsoring Members and Sponsored Members), and (iii) a Sponsored Member pursuant to Section 13 of GSD Rule 3A (Sponsoring Members and Sponsored Members). Supra note 3.

⁶ GSD Rule 4. Supra note 3.

⁷ GSD Rule 4, Section 3. Supra note 3.

⁸ GSD Rule 3A, Section 10(d). Supra note 3.

⁹ GSD Rule 4, Section 1b. Supra note 3. Currently, if a Repo Broker has two Margin Portfolios, with Broker Account(s) in one Margin Portfolio and Dealer Account(s) in the other Margin Portfolio, the total minimum Required Fund Deposit applicable to the Repo Broker would be \$5.1 million, i.e., \$5 million minimum Required Fund Deposit for the Margin Portfolio with Broker Account(s) and \$100,000 minimum Required Fund Deposit for the Margin Portfolio with Dealer Account(s).

at GSD is insufficient to manage FICC's risk in the event of an abrupt or sudden increase in a member's activity.

FICC employs daily backtesting to determine the adequacy of each member's Required Fund Deposit.¹⁰ FICC compares the Required Fund Deposit¹¹ for each member with the simulated liquidation gains/losses using the actual positions in the member's portfolio, and the actual historical security returns. A backtesting deficiency occurs when a member's Required Fund Deposit would not have been adequate to cover the projected liquidation losses estimated from a member's settlement activity based on the backtesting results. FICC investigates the cause(s) of any backtesting deficiencies. As part of this investigation, FICC pays particular attention to members with backtesting deficiencies that bring the coverage for that member below the 99% confidence target (i.e., if the member had more than two backtesting deficiency days in a rolling twelve-month period) to determine if there is an identifiable cause of repeat backtesting deficiencies.¹² FICC

¹⁰ The Model Risk Management Framework ("Model Risk Management Framework") sets forth the model risk management practices of FICC and states that Value at Risk ("VaR") and Clearing Fund requirement coverage backtesting would be performed on a daily basis or more frequently. See Securities Exchange Act Release Nos. 81485 (August 25, 2017), 82 FR 41433 (August 31, 2017) (SR-FICC-2017-014), 84458 (October 19, 2018), 83 FR 53925 (October 25, 2018) (SR-FICC-2018-010), 88911 (May 20, 2020), 85 FR 31828 (May 27, 2020) (SR-FICC-2020-004), 92380 (July 13, 2021), 86 FR 38140 (July 19, 2021) (SR-FICC-2021-006), and 94271 (February 17, 2022), 87 FR 10411 (February 24, 2022) (SR-FICC-2022-001).

¹¹ Members may be required to post additional collateral to the Clearing Fund in addition to their Required Fund Deposit amount. See e.g., Section 7 of GSD Rule 3 (Ongoing Membership Requirements), supra note 3 (providing that adequate assurances of financial responsibility of a member may be required, such as increased Clearing Fund deposits). For backtesting comparisons, FICC uses the Required Fund Deposit amount, without regard to the actual, total collateral posted by the member to the Clearing Fund.

¹² The 99% confidence target is consistent with Rule 17Ad-22(e)(6)(iii) which requires FICC to calculate margin to cover its "potential future exposure" which is defined in Rule 17Ad-22(a)(13) to mean the "maximum exposure estimated to occur at a future point in time with an established single-tailed confidence level of

also evaluates whether multiple members may experience backtesting deficiencies for the same underlying reason. Backtesting deficiencies highlight exposure that could subject FICC to potential losses in the event that a member defaults.

While multiple factors may contribute to a member's backtesting deficiency, a position increase by a member after the calculation of each member's Required Fund Deposit may be a factor that leads to the member incurring backtesting deficiencies due to the additional exposure that is not mitigated until the collection of the Required Fund Deposit occurs intraday, or on the next Business Day. This factor is heightened for those members that have a low or minimum Required Fund Deposit because there are less deposits to mitigate any abrupt change in their portfolio exposure.

Typical examples where a member's required Clearing Fund deposit amount is the same as the current minimum Required Fund Deposit amount of \$100,000 include (1) when a new member has activated its clearing accounts at FICC and is growing its business, (2) when a member has limited or infrequent clearing activity, and (3) when a member is winding down its business and is in the process of retiring its FICC membership. In each of these circumstances, an abrupt increase in clearing activity following a period of low or no clearing activity could cause FICC to be under-margined with respect to the member and may result in backtesting deficiencies. This is because if a member with low or no clearing activity were to have an abrupt increase in clearing activity after the calculation of the member's Required Fund Deposit (which would have been calculated based on a period of low or no clearing activity), it could lead to the member incurring backtesting deficiencies due to the additional exposure to FICC from the increase in clearing activity that may not be mitigated until the collection of the Required Fund Deposit either intraday or on the next Business Day. Therefore, FICC is

at least 99 percent with respect to the estimated distribution of future exposure.”
17 CFR 240.17Ad-22(a)(13) and (e)(6)(iii).

proposing to increase the GSD minimum Required Fund Deposit amount in order to address the risk that FICC becomes under-margined in circumstances when a member's required Clearing Fund deposit amount is the same as the current GSD minimum Required Fund Deposit amount, i.e., \$100,000.

In determining the appropriate minimum Required Fund Deposit amount, FICC reviewed different minimum Required Fund Deposit amounts to determine the anticipated effects of increasing the minimum Required Fund Deposits on Clearing Fund coverage and on backtesting results, i.e., \$500,000 versus \$1 million. FICC also conducted a review of minimum deposit requirements of registered clearing agencies and foreign central counterparty clearing houses ("CCPs") to compare FICC/GSD's minimum Required Fund Deposit amount with the deposits required by registered clearing agencies and foreign CCPs. Based on the results of the reviews and the comparison of other registered clearing agencies and foreign CCPs, FICC believes that a proposed minimum Required Fund Deposit amount of \$1 million for GSD would provide an appropriate balance of improving member backtesting results and FICC/GSD's Clearing Fund coverage while minimizing the impact to members.

To assess the impact on GSD backtesting coverage if the GSD minimum Required Fund Deposit amount were increased from \$100,000 to \$1 million, FICC conducted a backtesting impact study for the 12-month period ended June 30, 2022 ("Backtesting Impact Study"). The result of the Backtesting Impact Study indicates that using \$1 million as GSD's minimum Required Fund Deposit amount would have reduced the number of members with backtesting coverage below 99%.¹³ The Backtesting Impact

¹³ Backtesting percentages indicate the risk that a minimum Required Fund Deposit would be insufficient to manage risk in the event of a member's default. A backtesting coverage that is below the 99% confidence target for a member means that the member has had more than two backtesting deficiency days in a rolling twelve-month period, i.e., assuming the member had a full year of trading history. As indicated above, consistent with Rule 17Ad-22(e)(6)(iii), FICC pays particular attention to members with backtesting deficiencies that bring the results for that

Study shows 70 members below 99% backtesting coverage as of June 30, 2022 with a collective 396 backtesting deficiencies in GSD. Approximately 21% (i.e., 85 out of 396) of the backtesting deficiencies occurred with members that had a Required Fund Deposit of less than \$1 million on the relevant deficiency day(s). If the proposed changes had been in place during the Backtesting Impact Study period, approximately 16% (i.e., 65 out of 396) of the backtesting deficiencies incurred by the members would have been eliminated, and the total number of members that were below the 99% confidence target as of June 30, 2022 would have been reduced by 8. Overall, a \$1 million minimum requirement would have increased GSD's 12-month backtesting coverage 0.22%, eliminated 65 backtesting deficiencies, and improved the rolling twelve-month backtesting coverage for 8 members to above 99% confidence target. In contrast, if a \$500,000 minimum Required Fund Deposit had been applied during the same study period, GSD's 12-month backtesting coverage would have increased by 0.13%, 38 backtesting deficiencies would have been eliminated, and the rolling twelve-month backtesting coverage for 3 members would have been improved to above 99% confidence target. In summary, if the minimum Required Fund Deposit at GSD during the study period had been set to \$1 million compared to \$500,000, there would have been 27 more backtesting deficiencies eliminated (i.e., 65 instead of 38 or an approximately 71% increase in the number of backtesting deficiencies that could have been eliminated), 5 more members would be brought back to above 99% confidence target (i.e., 8 instead of 3 or an approximately 166% increase in the number of members brought back to above 99% confidence target), and the overall GSD backtesting coverage would have increased an additional 0.09%.

member below the 99% confidence target to determine if there is an identifiable cause of repeat backtesting deficiencies. Supra note 12.

FICC’s review of the requirements of other clearing agencies and foreign CCPs indicated that FICC/GSD’s current minimum Required Fund Deposit requirement of \$100,000 was significantly lower than minimum deposits or equivalent required by such other entities.¹⁴ While the minimum required fund deposits of such other entities is not dispositive as to the risk borne by FICC or the proper fund deposit amounts to offset such risk, it is indicative of the amounts that users of other similarly situated entities can expect to pay as a minimum required fund deposit to use the services of the clearing agencies and foreign CCPs and the impact to such users. The comparison shows that entities using other clearing agencies and foreign CCPs pay significantly more in minimum fund deposits to use similar services than the current minimum Required Fund Deposit amount at GSD.

FICC also conducted a Clearing Fund requirement impact study for the period of July 1, 2021 to June 30, 2022 (“CFR Impact Study”). The result of the CFR Impact

¹⁴ For example, the minimum initial contribution for The Options Clearing Corporation (“OCC”) is \$500,000. See Rule 1002(d) of the OCC Rules, available at https://www.theocc.com/getmedia/9d3854cd-b782-450f-bcf7-33169b0576ce/occ_rules.pdf. The minimum guaranty fund deposit for Chicago Mercantile Exchange (“CME”) is \$500,000 or \$2.5 million depending on the product types being cleared. See Rule 816 of the CME Rulebook, available at <https://www.cmegroup.com/content/dam/cmegroup/rulebook/CME/I/8/8.pdf>. The minimum Required Fund Deposit for National Securities Clearing Corporation (“NSCC”) is \$250,000. See Rule 4 of NSCC Rulebook, available at https://dtcc.com/~media/Files/Downloads/legal/rules/nscc_rules.pdf. The minimum default fund contribution for LCH Limited is GBP 500,000 (approximately \$579,000 based on current foreign currency exchange rate). See definition of “Minimum Contribution” in the LCH Limited Default Rules, available at https://www.lch.com/system/files/media_root/210609_Default%20Rules_Clean_0.pdf. The minimum RepoClear default fund contribution for LCH Ltd. is GBP 2,000,000 (approximately \$2.3 million based on the current foreign currency exchange rate). See definition of “Minimum RepoClear Contribution” in the LCH Limited Default Rules, available at https://www.lch.com/system/files/media_root/210609_Default%20Rules_Clean_0.pdf. The minimum contribution to Ice Clear U.S. Guaranty Fund is \$2 million. See Rule 301 of ICE Clear U.S., Inc. Rules, available at https://www.ice.com/publicdocs/rulebooks/clear/ICE_Clear_US_Rules.pdf.

Study indicates that if the proposed changes had been in place during the CFR Impact Study period, approximately 47% (81 out of a total of 174) of the current members' Margin Portfolios would have been impacted, with an average and a weighted average (with weights based on number of impacted days) additional Required Fund Deposit of approximately \$686,000 and \$792,000, respectively, for each such Margin Portfolio per impacted day. However, when comparing the actual, total Clearing Fund deposit of the current members' Margin Portfolios with the proposed minimum Required Fund Deposit amount, only approximately 13% (23 out of a total 174) of such members' Margin Portfolios would have been impacted, requiring an average and a weighted average (with weights based on number of impacted days) additional cash deposit of approximately \$649,000 and \$715,000, respectively, for each such Margin Portfolio per impacted day. The result of the CFR Impact Study also shows one Repo Broker that would have been impacted, requiring additional Clearing Fund deposit of approximately \$392,000 in either cash or Eligible Clearing Fund Securities per impacted day. Overall, the proposed changes would have resulted in an average increase in daily Required Fund Deposit of \$31.4 million (or 0.17%) at GSD during the CFR Impact Study period.

Based on the Backtesting Impact Study and the CFR Impact Study results discussed above, FICC believes that \$1 million is the appropriate minimum Required Fund Deposit amount at GSD that would minimize the financial impact to its members while improving member backtesting results and FICC/GSD's Clearing Fund coverage.

As is currently provided for in the Rules, FICC/GSD is proposing to continue to require that members deposit in cash an amount not less than the minimum Required Fund Deposit.¹⁵ FICC permits members to satisfy their Required Fund Deposit

¹⁵ Currently, all members (including Repo Brokers) are required to have at least \$100,000 of the Required Fund Deposit in cash. See GSD Rule 4, Section 3. Supra note 3.

obligations through a combination of cash and open account indebtedness secured by Eligible Clearing Fund Securities.¹⁶ Cash deposits are fungible. FICC would therefore be further strengthening its liquidity resources by requiring each member (including Repo Brokers) to deposit at least \$1 million in cash to the GSD Clearing Fund.

Proposed Rule Changes

In order to implement the proposed increase in the minimum Required Fund Deposit amount to \$1 million for the Sponsoring Members, Section 10(c) of GSD Rule 3A (Sponsoring Members and Sponsored Members) would be revised to state that the Sponsoring Member Omnibus Account Required Fund Deposit shall be equal to the greater of: (i) \$1 million or (ii) the sum of the following: (1) the sum of the VaR Charges for all of the Sponsored Members whose activity is represented in the Sponsoring Member Omnibus Account as derived pursuant to Section 1b(a)(i) of GSD Rule 4 (Clearing Fund and Loss Allocation), and (2) all amounts derived pursuant to the provisions of GSD Rule 4 other than pursuant to Section 1b(a)(i) of GSD Rule 4 computed at the level of the Sponsoring Member Omnibus Account. In addition, Section 10(d) of GSD Rule 3A would be revised to replace the minimum cash amount from \$100,000 to \$1 million to match the proposed increased minimum Required Fund Deposit amount for the Sponsoring Members.

In order to implement the proposed increase in the minimum Required Fund Deposit amount to \$1 million for the GSD Netting Members, Section 2(a) of GSD Rule 4 would be revised to state that each Netting Member shall be required to make a Required Fund Deposit to the Clearing Fund equal to the greater of (i) the Minimum Charge or (ii) the Total Amount. FICC is also proposing to add a sentence to Section 2(a) of GSD Rule 4 that makes it clear that the Minimum Charge applicable to each Netting Member,

¹⁶ Id.

other than a Repo Broker, shall be no less than \$1 million. In addition, for better organization of the subject matter and clarity, FICC is proposing to move two sentences in GSD Rule 4 from Section 1b to Section 2(a) with revisions: one stipulates that the Minimum Charge applicable to each Repo Broker shall be no less than \$5 million for each Margin Portfolio with Broker Account(s) and no less than \$1 million for each Margin Portfolio with Dealer Account(s) and the other refers to additional payments, charges and premiums being applied by FICC after application of Minimum Charges, which replaces “minimum Clearing Fund amounts”. Lastly, Section 3 of GSD Rule 4 would be revised to replace the minimum cash amount from \$100,000 to \$1 million to match the proposed increased minimum Required Fund Deposit amount.

Although FICC is not proposing to increase the minimum Required Fund Deposit for MBSD at this time, for clarity and transparency, FICC is proposing to add a sentence to Section 2 of MBSD Rule 4 (Clearing Fund and Loss Allocation) that would make it clear the Minimum Charge for each margin portfolio of a Clearing Member shall be no less than \$100,000. To enhance clarity in Section 2 of MBSD Rule 4, FICC is also proposing to replace (i) “Clearing Fund requirement” with “Minimum Charge for each margin portfolio” and (ii) “minimum Clearing Fund amounts” with “Minimum Charges”. Furthermore, FICC is proposing a technical change to correct a reference to the non-Unregistered Investment Pool Clearing Member in Section 2 of MBSD Rule 4.

Implementation Timeframe

Subject to approval by the Commission, FICC would implement the proposed changes by no later than 60 Business Days after such approval and would announce the effective date of the proposed changes by an Important Notice posted to its website.

2. Statutory Basis

FICC believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a registered clearing

agency. Specifically, FICC believes that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act¹⁷ and Rules 17Ad-22(e)(4)(i) and (e)(6)(iii),¹⁸ each as promulgated under the Act, for the reasons described below.

Section 17A(b)(3)(F) of the Act requires that the Rules be designed to, among other things, assure the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible.¹⁹ FICC believes the proposed rule changes are designed to assure the safeguarding of securities and funds which are in its custody or control or for which it is responsible because they are designed to enable FICC to require the necessary margin for members who have a minimum Required Fund Deposit to limit its exposure to such members in the event of a member default. Having adequate margin for such members would help ensure that FICC does not need to use its own resources, or the Eligible Clearing Fund Securities and funds of non-defaulting members, to cover losses in the event of a default of such members. Specifically, the proposed rule change seeks to remedy potential situations that are described above where FICC could be undermargined. By ensuring that members that have the minimum Required Fund Deposit amount are adequately covering FICC's risk of loss, FICC would be reducing the risk of losses, which would need to be addressed by using non-defaulting members' securities or funds, or FICC's funds. In addition, by requiring that members pay an amount not less than the minimum Required Fund Deposit amount in cash, FICC would be making available additional collateral that is easier to access upon a member's default, further reducing the risk of losses and using non-defaulting members' securities or funds, or FICC's funds, for liquidity. Therefore, FICC believes the proposed rule change enhances

¹⁷ 15 U.S.C. 78q-1(b)(3)(F).

¹⁸ 17 CFR 240.17Ad-22(e)(4)(i) and (e)(6)(iii).

¹⁹ 15 U.S.C. 78q-1(b)(3)(F).

the safeguarding of securities and funds that are in the custody or control of FICC, consistent with Section 17(b)(3)(F) of the Act.²⁰

Rule 17Ad-22(e)(4)(i) under the Act requires that FICC establish, implement, maintain and enforce written policies and procedures reasonably designed to effectively identify, measure, monitor, and manage its credit exposures to members and those arising from its payment, clearing, and settlement processes, including by maintaining sufficient financial resources to cover its credit exposure to each member fully with a high degree of confidence.²¹ As described above, FICC believes that the proposed changes would enable it to better identify, measure, monitor, and, through the collection of members' Required Fund Deposits, manage its credit exposures to members by maintaining sufficient resources to cover those credit exposures fully with a high degree of confidence. More specifically, as indicated by the Backtesting Impact Study results, raising the minimum Required Fund Deposit amount to \$1 million at GSD would decrease the number of backtesting deficiencies and help ensure that FICC maintains the coverage of credit exposures for more members at a confidence level of at least 99%. In addition, by requiring members pay an amount not less than the minimum Required Fund Deposit amount in cash, FICC would be making available collateral that is easier to access when members default, thus further reducing the potential risk of loss from having to use non-defaulting members' securities or funds, or FICC's funds, for liquidity. Therefore, FICC believes that the proposed changes would enhance FICC's ability to effectively identify, measure, monitor and manage its credit exposures and would enhance its ability to maintain sufficient financial resources to cover its credit exposure to

²⁰ Id.

²¹ 17 CFR 240.17Ad-22(e)(4)(i).

each member fully with a high degree of confidence. As such, FICC believes the proposed changes are consistent with Rule 17Ad-22(e)(4)(i) under the Act.²²

Rule 17Ad-22(e)(6)(iii) under the Act requires that FICC establish, implement, maintain and enforce written policies and procedures reasonably designed to cover its credit exposures to its members by establishing a risk-based margin system that, at a minimum, calculates margin sufficient to cover its potential future exposure to members in the interval between the last margin collection and the close out of positions following a member default.²³ FICC employs daily backtesting to determine the adequacy of each member's Required Fund Deposit, paying particular attention to members that have backtesting deficiencies below the 99% confidence target. Such backtesting deficiencies highlight exposure that could subject FICC to potential losses if a member defaults. As discussed above, FICC has determined that approximately 16% (i.e., 65 out of 396) of the backtesting deficiencies would have been eliminated during the Backtesting Impact Study period if the minimum Required Fund Deposit were \$1 million. By raising the minimum Required Fund Deposit amount to \$1 million at GSD, FICC believes it can decrease the backtesting deficiencies by members, and thus decrease its exposure to such members in the event of a default. FICC believes that the increase in margin for those members that currently have a Required Fund Deposit of less than \$1 million would improve the probabilities that the margin required of such members is sufficient to cover FICC's potential future exposure to members in the interval between the last margin collection and the close out of positions following a member default.

²² Id.

²³ 17 CFR 240.17Ad-22(e)(6)(iii).

Therefore, FICC believes the proposed change is consistent with Rule 17Ad-22(e)(6)(iii) under the Act.²⁴

Section 17A(b)(3)(F) of the Act requires, in part, that the Rules be designed to promote the prompt and accurate clearance and settlement of securities transactions.²⁵ FICC believes the proposed clarifying and technical changes to the GSD and MBSD Rules would allow FICC to help promote prompt and accurate clearance and settlement of securities transactions. This is because the proposed changes to the Rules would clarify and improve the transparency of the Rules. Enhancing the clarity and transparency of the Rules would help members to better understand their rights and obligations regarding FICC's clearance and settlement services. FICC believes that when members better understand their rights and obligations regarding FICC's clearance and settlement services, they can act in accordance with the Rules. FICC believes that better enabling members to comply with the Rules would promote the prompt and accurate clearance and settlement of securities transactions by FICC. As such, FICC believes the proposed clarifying and technical changes are consistent with Section 17A(b)(3)(F) of the Act.²⁶

(B) Clearing Agency's Statement on Burden on Competition

FICC believes that the proposed changes to increase the minimum Required Fund Deposit could have an impact on competition. Specifically, FICC believes that the proposed changes could burden competition because they would result in larger Required Fund Deposits for certain members, e.g., members that currently have lower Required Fund Deposits would have to deposit additional cash and/or Eligible Clearing Fund

²⁴ Id.

²⁵ 15 U.S.C. 78q-1(b)(3)(F).

²⁶ Id.

Securities, as applicable, to their Clearing Fund deposits. The proposed changes could impose more of a burden on those members that have lower operating margins, lower cash reserves or higher costs of capital compared to other members. Nonetheless, FICC believes that any burden on competition imposed by the proposed changes would not be significant and would be both necessary and appropriate in furtherance of FICC's efforts to mitigate risks and meet the requirements of the Act, as described in this filing and further below.

FICC believes that any burden on competition presented by the proposed changes to increase the minimum Required Fund Deposit amount would not be significant. As discussed above, if the minimum Required Fund Deposit at GSD had been increased to \$1 million during the CFR Impact Study period, approximately 47% (81 out of a total of 174) of the current members' Margin Portfolios would have been impacted, with an average and a weighted average additional Required Fund Deposit of approximately \$686,000 and \$ 792,000, respectively, for each such Margin Portfolio per impacted day. However, when comparing the actual, total Clearing Fund deposit of the current members' Margin Portfolios with the proposed minimum Required Fund Deposit amount, only approximately 13% (23 out of a total of 174) of such members' Margin Portfolios would have to deposit additional cash to the Clearing Fund, with an average and a weighted average cash deposit of approximately \$649,000 and \$715,000, respectively, for each such Margin Portfolio per impacted day. Furthermore, when comparing the average additional cash deposit amounts that members would be required to make if the minimum Clearing Fund cash deposit at GSD had been increased to \$1 million with their respective average Net Capital²⁷ during the CFR Impact Study period,

²⁷ As defined in GSD Rule 1 (Definitions), the term "Net Capital" means, as of a particular date, the amount equal to the net capital of a broker or dealer as defined in SEC Rule 15c3-1(c)(2), or any successor rule or regulation thereto. Supra note 3.

the largest average additional cash deposit amount represented approximately 0.49% of the affected member's average Net Capital.²⁸ Similarly, when comparing the average additional Clearing Fund deposit that members would be required to make, either in cash or Eligible Clearing Fund Securities, if the minimum Required Fund Deposit amount at GSD had been increased as proposed with their respective average Net Capital during the CFR Impact Study period, the largest average additional Clearing Fund deposit amount represented approximately 1.46% of the affected member's average Net Capital.²⁹

In addition, FICC believes that the increase to \$1 million is comparable with what users of other similarly situated registered clearing agencies and foreign CCPs are expected to pay as a minimum required deposit for similar services.³⁰ Furthermore, by limiting the proposed Required Fund Deposit to \$1 million rather than a higher minimum Required Fund Deposit, FICC would be minimizing the financial impact to its members while improving member backtesting results and FICC/GSD's Clearing Fund coverage.

While raising the minimum Required Fund Deposit to \$500,000 would also reduce backtesting deficiencies, it would not reduce them to the same extent that raising the minimum Required Fund Deposit to \$1 million would have. If the minimum Required Fund Deposit were raised to \$1 million rather than \$500,000, FICC would have observed 27 fewer backtesting deficiencies at GSD, which represents an approximately 71% increase (i.e., 65 instead of 38) in the number of deficiencies that could have been eliminated. Backtesting deficiencies highlight exposure that could subject FICC to potential losses in the event that a member defaults. FICC believes that the additional

²⁸ The affected member would have had to deposit an additional \$900,000 in cash each impacted day during the CFR Impact Study period.

²⁹ The affected member would have had to deposit an additional \$392,000 in either cash or Eligible Clearing Fund Securities each impacted day during the CFR Impact Study period.

³⁰ Supra note 14.

reduction in exposure that would occur if the minimum Required Fund Deposit at GSD were raised to \$1 million rather than \$500,000 justifies the potential additional burden for members who currently have a Required Fund Deposit of less than \$1 million.

Even if the burden were deemed significant with respect to certain members, FICC believes that the above-described burden on competition that may be created by the proposed changes would be necessary in furtherance of the Act, specifically Section 17A(b)(3)(F) of the Act,³¹ because, as described above, the Rules must be designed to assure the safeguarding of securities and funds that are in FICC's custody or control or which it is responsible.

As described above, FICC believes the proposed changes are designed to assure the safeguarding of securities and funds which are in its custody or control or for which it is responsible because they are designed to enable FICC to require the necessary margin for members who have a minimum Required Fund Deposit to limit its exposure to such members in the event of a member default. Having adequate margin for such members would help ensure that FICC does not need to use its own resources, or the Eligible Clearing Fund Securities and funds of non-defaulting members, to cover losses in the event of a default of such members. Specifically, the proposed changes seek to remedy potential situations where FICC could be under-margined. By ensuring that members that have the minimum Required Fund Deposit amount are adequately covering FICC's risk of loss, FICC would be reducing the risk of losses, which would need to be addressed by using non-defaulting members' securities or funds, or FICC's funds. In addition, by requiring that members pay an amount equal to the minimum Required Fund Deposit amount in cash, FICC would be making available additional collateral that is easier to access upon a member's default, further reducing the risk of losses and using non-

³¹ 15 U.S.C. 78q-1(b)(3)(F).

defaulting members' securities or funds, or FICC's funds, for liquidity. Therefore, FICC believes the proposed changes are necessary in furtherance of Section 17A(b)(3)(F) of the Act.³²

In addition, FICC believes these proposed changes are necessary to support FICC's compliance with Rules 17Ad-22(e)(4)(i) and 17Ad-22(e)(6)(iii) under the Act,³³ which require FICC to establish, implement, maintain and enforce written policies and procedures reasonably designed to (x) effectively identify, measure, monitor, and manage its credit exposures to members and those arising from its payment, clearing, and settlement processes, including by maintaining sufficient financial resources to cover its credit exposure to each member fully with a high degree of confidence; and (y) cover its credit exposures to its members by establishing a risk-based margin system that, at a minimum, calculates margin sufficient to cover its potential future exposure to members in the interval between the last margin collection and the close out of positions following a member default.

As described above, FICC believes increasing the minimum Required Fund Deposit amount at GSD to \$1 million would decrease the number of backtesting deficiencies and ensure that FICC maintains the coverage of credit exposures for more members at a confidence level of at least 99%. This outcome is consistent with Rule 17Ad-22(e)(4)(i) which requires that FICC maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence.³⁴ This outcome is also consistent with Rule 17Ad-22(e)(6)(iii) which requires that FICC calculate sufficient margin to cover its "potential future exposure" which is defined as the

³² Id.

³³ 17 CFR 240.17Ad-22(e)(4)(i) and (e)(6)(iii).

³⁴ 17 CFR 240.17Ad-22(e)(4)(i).

“maximum exposure estimated to occur at a future point in time with an established single-tailed confidence level of at least 99 percent with respect to the estimated distribution of future exposure.”³⁵ FICC believes that the increase in margin for those members that currently have a Required Fund Deposit of less than \$1 million at GSD would help ensure that FICC maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence and that the margin deposited by such members is sufficient to cover FICC’s potential future exposure in the interval between the last margin collection and the close out of positions following a member default. Therefore, FICC believes that these proposed changes are necessary to support FICC’s compliance with Rules 17Ad-22(e)(4)(i) and 17Ad-22(e)(6)(iii) under the Act.³⁶

FICC believes that the above-described burden on competition that could be created by the proposed changes would be appropriate in furtherance of the Act because such changes have been appropriately designed to assure the safeguarding of securities and funds which are in the custody or control of FICC or for which it is responsible, as described in detail above. The proposal would enable FICC to produce margin levels more commensurate with the risks it faces as a central counterparty. The proposed increase in minimum Required Fund Deposit at GSD would be in relation to the credit exposure risks presented by the class of members that currently have a Required Fund Deposit of less than \$1 million, and each member’s Required Fund Deposit would continue to be calculated with the same parameters and at the same confidence level for each member. Therefore, members that present similar risk, regardless of the type of member, would have similar impact on their Required Fund Deposit amounts.

³⁵ 17 CFR 240.17Ad-22(e)(6)(iii).

³⁶ 17 CFR 240.17Ad-22(e)(4)(i) and (e)(6)(iii).

In addition, based on the comparison with other registered clearing agencies and foreign CCPs, FICC believes that the increase to \$1 million is comparable with what users of other similarly situated registered clearing agencies and foreign CCPs are expected to pay and would not be a significant burden on Members.³⁷ Furthermore, based on the results of the Backtesting Impact Study and CFR Impact Study, as discussed above, FICC believes that a proposed minimum Required Fund Deposit of \$1 million at GSD would provide an appropriate balance of improving member backtesting results while minimizing the impact to members by not raising the minimum Required Fund Deposit above \$1 million. Therefore, because the proposed changes are designed to provide FICC with a more appropriate and balanced method of managing the risks presented by each member while minimizing the impact to members, FICC believes the proposed changes are appropriately designed to meet its risk management goals and regulatory obligations.

FICC believes that it has designed the proposed changes in a way that is both necessary and appropriate to meet compliance with its obligations under the Act. Specifically, the proposal to increase the minimum Required Fund Deposit amount to \$1 million at GSD would better limit FICC's credit exposures to its members. In addition, by continuing to require that members pay an amount equal to the minimum Required Fund Deposit amount in cash, FICC would be making available additional collateral that is easier for FICC to access upon a member's default, further limiting its credit exposure to members. Therefore, as described above, FICC believes the proposed changes are necessary and appropriate in furtherance of FICC's obligations under the Act, specifically Section 17A(b)(3)(F) of the Act³⁸ and Rules 17Ad-22(e)(4)(i) and 17Ad-22(e)(6)(iii)

³⁷ Supra note 14.

³⁸ 15 U.S.C. 78q-1(b)(3)(F).

under the Act.³⁹ For these reasons, the proposed changes are not designed to be an artificial barrier to entry but a necessary and appropriate change to address specific risks.

(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

FICC has not received or solicited any written comments relating to this proposal. If any additional written comments are received, they will be publicly filed as an Exhibit 2 to this filing, as required by Form 19b-4 and the General Instructions thereto.

Persons submitting comments are cautioned that, according to Section IV (Solicitation of Comments) of the Exhibit 1A in the General Instructions to Form 19b-4, the Commission does not edit personal identifying information from comment submissions. Commenters should submit only information that they wish to make available publicly, including their name, email address, and any other identifying information.

All prospective commenters should follow the Commission's instructions on how to submit comments, available at <https://www.sec.gov/regulatory-actions/how-to-submit-comments>. General questions regarding the rule filing process or logistical questions regarding this filing should be directed to the Main Office of the SEC's Division of Trading and Markets at tradingandmarkets@sec.gov or 202-551-5777.

FICC reserves the right not to respond to any comments received.

III. Date of Effectiveness of the Proposed Rule Change, and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

³⁹ 17 CFR 240.17Ad-22(e)(4)(i) and (e)(6)(iii).

- (A) by order approve or disapprove such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form
(<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-FICC-2022-006 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549.

All submissions should refer to File Number SR-FICC-2022-006. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m.

and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of FICC and on DTCC's website (<http://dtcc.com/legal/sec-rule-filings.aspx>). All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-FICC-2022-006 and should be submitted on or before **[INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*]**.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁴⁰

J. Matthew DeLesDernier,
Deputy Secretary.

[FR Doc. 2022-20499 Filed: 9/21/2022 8:45 am; Publication Date: 9/22/2022]

⁴⁰ 17 CFR 200.30-3(a)(12).